Financial Results for the First Half of the Year Ending March 31, 2017 (J-GAAP)

November 9, 2016

Name of listed company:	NICHIIGAKKAN CO., LTD.	Listed on:	Tokyo Stock Exchange 1st Section
Securities code:	9792	URL:	http://www.nichiigakkan.co.jp
Representative:	Akihiko Terada, Chairman, President and CEO		
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Scheduled date for filing the quarterly financial report: November 11, 2016
Scheduled date to start dividends distribution: December 6, 2016
Supplementary quarterly materials prepared: Yes
Quarterly results information meeting held: Yes (for institutional investors and financial analysts)

(Figures shown are rounded down to the nearest million yen.)

1.Consolidated financial results for the first half ended September 30, 2016 (April 1, 2016 – September 30, 2016)

(1) Consolidated operating results

(Percentage figures represent changes from same period of previous year.)

	Net Sales		Operating Income		Ordinary Income		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Six months ended September 30, 2016	137,751	0.9	815	—	(1,110)	—	(1,240)	—
Six months ended September 30, 2015	136,575	0.4	(473)	—	(1,701)	—	(2,296)	—

(Note) Comprehensive income: Six months ended September 30, 2016: -1,547 million yen (— %)
Six months ended September 30, 2015: -1,981 million yen (— %)

	Net Income per Share	Diluted Net Income per Share
	Yen	Yen
Six months ended September 30, 2016	(19.32)	—
Six months ended September 30, 2015	(35.68)	—

(2) Consolidated financial position

	Total Assets	Net Assets	Equity Ratio
	Million yen	Million yen	%
As of September 30, 2016	188,516	36,344	18.6
As of March 31, 2016	184,170	38,101	20.0

Reference: Shareholders' equity As of September 30, 2016: 35,083 million yen ; As of March 31, 2016: 36,868 million yen

2. Dividends

	Annual dividends				
	1Q-end	2Q-end	3Q-end	Year-end	Annual
	Yen	Yen	Yen	Yen	Yen
Year ended March 31, 2016	—	11.00	—	11.00	22.00
Year ending March 31, 2017	—	11.00			
Year ending March 31, 2017 (forecast)			—	11.00	22.00

(Note) Revisions to most recently announced dividend forecast: No

3. Forecast of consolidated financial results for the year ending March 31, 2017 (April 1, 2016 – March 31, 2017)

(Percentage figures represent changes from same period of previous year.)

	Net Sales		Operating Income		Ordinary Income		Profit attributable to owners of parent		Net Income per Share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	282,000	3.1	4,800	—	1,300	—	500	—	7.79

(Note) Revisions to most recently announced financial results forecast: Yes

* Notes

(1) Significant changes in subsidiaries during the term (Changes in specified subsidiaries resulting in changes in scope of consolidation): None

(2) Application of specific accounting for preparing the quarterly consolidated financial statements: None

(3) Changes in accounting policies, changes of accounting estimates and restatement

1) Changes in accounting policies due to revisions of accounting standards, etc.: None
2) Changes in accounting policies due to reasons other than those stated in 1): None
3) Changes in accounting estimates: None
4) Restatement: None

(4) Number of shares outstanding (common stock)

1) Number of shares issued and outstanding (including treasury stock)

As of September 30, 2016:	73,017,952	As of March 31, 2016:	73,017,952

2) Number of treasury stock

As of September 30, 2016:	8,825,112	As of March 31, 2016:	8,825,918

3) Average number of shares issued and outstanding in each period (quarterly consolidated cumulative period)

As of September 30, 2016	64,192,337	As of September 30, 2015:	64,376,251

* Implementation status of quarterly review procedures

The quarterly review procedure based on the Financial Instruments and Exchange Act does not apply to these quarterly financial statements, and the procedure based on the Financial Instruments and Exchange Act is in operation as of the release of these quarterly financial statements.

* Explanation concerning the appropriate use of financial result forecasts and other special notes

(Forward looking statements)

The above forecasts are based on information Nichii Gakkan had as of the time this report was prepared and on certain assumptions judged to be reasonable. Various factors may cause actual results to differ significantly from forecasts. Please refer to the disclaimers, provided under “(3) Information on the future outlook, including consolidated financial results forecasts” of “1. Qualitative information on quarterly financial results” on page 5 of the quarterly consolidated financial results (attached document), regarding the assumptions upon which forecasts are based and the use of forecasts.

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1. Qualitative information on quarterly financial results

1. Qualitative information on quarterly financial results

(1) Details of business results

During the first six months ended September 30, 2016, the Japanese economy remained on a modest recovery track against the background of improved employment and income conditions. However, the outlook for the economy became uncertain, chiefly reflecting the slowdown of emerging economies, increased global economic uncertainly due to the Brexit and stagnant corporate earnings.

With the advent of a super-aging society and a shrinking population, Japan has arrived at a chronic labor shortage. The administration led by Prime Minister Shinzo Abe is about to insert a scalpel into the structural problem known as productivity decline caused by the decreasing workforce through a labor-force participation ratio increase based on reforms such as the correction of different wages for identical labor and long working hours, through policies it calls the "promotion of dynamic engagement of all citizens" and "reforms of working styles."

Personnel procurement has also been an issue of utmost importance in the fields of long-term care and child care where the Nichii Gakkan Group operates. A shortage in the volume of services provided attributable to a serious shortage of competent individuals has been causing people to leave their jobs in order to take care of family members and has led to an increase in the number of children on waiting lists for admission to kindergartens. This situation has been a barrier to labor productivity enhancement across all industries.

In this business environment, the Nichii Gakkan Group undertook its operations to meet rapidly changing social requirements, achieve corporate growth and solve problems in society based on its management philosophy of "contributing to the enhancement of human life through the development of our business."

The Group aims to be a team of excellent companies whose presence is felt worldwide, adopting as its management vision the business triangle of core businesses (the Medical Support, Long-term Care and Child Care Segments) performed with sincerity and pride, strategic businesses (the Education and Health Care Segments) that support greater profit returns to all stakeholders, and globalization businesses (overseas businesses in China and other markets), undertaken with a wide range of vision, dreams and passion.

The Group is building a stable and highly profitable business base that is unaffected by system trends, and is strengthening its future-oriented business base with international contributions in mind by expanding a business lineup that covers social contribution, profit returns and future orientation without omission.

In terms of reforms in the management execution structure, the Group worked to revitalize its entire organization through the executive officer system and took exhaustive actions to speed up business execution by 28 executive officers assigned to take charge of the respective businesses and regions and to implement community-based strategies. Furthermore, the Group made efforts to bolster the business execution and strategic implementation capabilities of its respective branches, other offices and business bases.

Looking at operating results, the Medical Support and Long-term Care Segments weakened as delays occurred in the acquisition of contracts with medical institutions and long-term care service users due to a shortage of capable individuals. Nonetheless, sales grew, backed by the Child Care and China Business Segments, which remained strong. Income also improved as a result of administrative operation reviews at the head office, branches and other offices and the advancement of promotional activities focused on cost-effectiveness.

The Group will strive to build a solid personnel base and secure stable income by acquiring and retaining capable individuals who will be its service providers with the maximum use of its original personnel training scheme dubbed "from education to job placement."

In the first six months under review, the Group posted net sales of 137,751 million yen (compared with net sales of 136,575 million yen in the first half of the previous fiscal year), operating income of 815 million yen (compared with an operating loss of 473 million yen in the first half of the previous fiscal year), an ordinary loss of 1,110 million yen (compared with an ordinary loss of 1,701 million yen in the first half of the previous fiscal year) and a net loss attributable to owners of parent of 1,240 million yen (compared with a net loss attributable to owners of parent of 2,296 million yen in the first half of the previous fiscal year).

Results by business segment are as follows:

From the first quarter of this fiscal year, the China business—the results of which were originally recorded in the Medical Support Segment, Long-term Care Segment, Healthcare Segment, Child Care Segment, and Other—is presented separately as the China Business Segment.

Child care courses (babysitting courses, etc.), which previously were included in the Education System, are now included in the Child Care Segment.
To compare the results in the first half under review and the results in the first half of the previous fiscal year in the following results by business segment, the business segments for the previous fiscal year have been reclassified, as described above.

<Medical Support Segment>

In the Medical Support Segment, the Group worked to expand businesses with a focus on the proposal-based sales of services with high added value, such as diversified management support to medical institutions that had already been under contracts, aiming to increase revenues through personnel retention. Personnel expenses grew due to reasons including the improved treatment of employees. However, the Group attempted to improve its earnings structure to secure appropriate income from new contracts and their existing counterparts. The number of students in courses for medical office work rose temporarily as a result of a special campaign. However, their number showed weakness compared with the first six months of the previous fiscal year.
As a result, the Group focused on approaching medical institutions that had already been under contracts. Both sales and income for the Segment decreased year on year, partly owing to the Group's switch to the policy of prioritizing income.
Net sales for the segment came to 54,065 million yen for the first half under review (compared with 54,395 million yen posted in the same period of the previous fiscal year). Operating income for the segment was 3,641 million yen (3,831 million yen in the same period of the previous fiscal year).

<Long-term Care Segment>

In the Long-term Care Segment, residential care services, including those at newly established facilities, achieved strong results. However, user acquisition for home care services produced undesirable results due to the inability to establish a system for supplying sufficient personnel able to meet growing demand. The Group worked to procure personnel by stepping up its personnel training scheme, upgraded systems for improving skills and measures for bettering treatment, and focused on promotional activities for training programs aimed at new care workers. Personnel procurement is taking some time, but sales shifted in the direction of prioritizing the service user structure focusing on users with severe conditions, signs of year-on-year sales growth began to appear, and the Segment began to shift toward a recovery track. Furthermore, income levels began recovering for both home and residential care services as a result of personnel allocation and shift management reviews.
As a result, both sales and income for the Segment rose year on year, supported by a steady increase in the number of residential care service users, even though the number of home care service users failed to grow.
Net sales for the segment came to 71,961 million yen for the first half under review (compared with 71,670 million yen in the same period of the previous fiscal year). Operating income for the segment was 4,935 million yen (3,383 million yen in the same period of the previous fiscal year).

<Health Care Segment>

In the Health Care Segment, the Group bolstered the lineups of Nichii Life housekeeping services and private brand products for sale to meet diverse service demands caused by lifestyle changes, and worked to expand the customer base and improve the level of customer satisfaction.
As a result, income for the Segment rose against the background of the expansion of the Nichii Life customer base and steady user growth, even though sales for the Segment decreased due to food service discontinuation and cutbacks in helper dispatch services.
Sales in this segment came to 1,790 million yen in the first half under review (compared with 1,890 million yen in the first half of the previous fiscal year), and operating income was 218 million yen (compared with 132 million yen in the first half of the previous fiscal year).

<Education Segment>

In the Education Segment, the need for new language learning opportunities for training employees able to work outside Japan has been rising, as demonstrated by developments such as foreign language activities to be made compulsory for elementary school pupils in Grade Three and higher in fiscal 2020 and advanced language skill evaluation through university entrance examination reforms. The Group began offering online language lessons making the most of its network in April 2016, advanced the maximization of learning outcomes through the integration of online and school lessons, and focused on acquiring more students. The Group succeeded in acquiring students efficiently and effectively through exhaustive promotional activities, including events taking advantage of its nationwide network of community-based schools, in which cost-effectiveness was emphasized.

As a result, sales for the Segment increased with steady rises in renewal ratios at schools for adults and children, and in the number of new students. Operating loss for the Segment decreased, attributable to the sales growth and improved advertising efficiency.

Net sales for the Education Segment totaled 6,347 million yen (compared with 6,346 million yen in the first half of the previous fiscal year). Operating loss for the segment was 2,405 million yen (compared with an operating loss of 2,862 million yen in the first half of the previous fiscal year).

<Child Care Segment>

In the Child Care Segment, the Group aggressively expanded its business bases centered on registered child care centers in a bid to reduce the number of children on the waiting lists for admission to kindergartens and promote the dynamic engagement of women. Furthermore, the Group focused on proposing the establishment of child care centers within hospitals and company offices and worked to expand the lineup of its services and the organization for supplying the services in order to meet a range of child care requirements. The Group was able to strengthen operations within the Tokyo metropolitan area where demand remains high with the acquisition in July 2016 of all shares in Sawayaka Hoiku, which provides services within the area.

As a result, sales for the Segment increased 72% year on year, contributing to revenue expansion for the Group. However, income for the Segment decreased under the adverse effects of aggressive investment in operations for establishing new child care centers.

Net sales for the Child Care Segment totaled 2,557 million yen (compared with 1,486 million yen in the first half of the previous fiscal year). The operating loss for the segment was 497 million yen (compared with a loss of 460 million yen in the first half of the previous fiscal year).

<China Business Segment>

The Group’s organization for providing services in China expanded to 16 companies and five school corporations in 15 cities with the addition of five regional operating companies and four school corporations to the scope of consolidation in the first six months under review. These companies and corporations steadily prepared a base for training personnel in a bid to achieve the spread of independent long-term care in the respective communities. At the same time, they worked to dig up service requirements with a multi-angled approach.

The training of workers who assume the responsibility for long-term care is also an urgent issue in China. It is crucial to improve their positions as specialists.

The Group will promote personnel exchanges between Japan and China and work to achieve the spread of sound long-term care globally in order to establish the social status of long-term care workers and help them to achieve their ambitions with improved employment qualifications.

Net sales for this segment amounted to 949 million yen (compared with 712 million yen in the first half of the previous fiscal year). Operating loss for the segment was 722 million yen (compared with a loss of 410 million yen in the first half of the previous fiscal year).

<Other Businesses>

In Other Businesses, the Group made efforts to increase synergy among businesses and companies and to improve revenues toward the goal of stepping up its management capabilities both in Japan and overseas.

Net sales for this segment stood at 78 million yen (compared with 72 million yen in the first half of the previous fiscal year). Operating income was 139 million yen (compared with 140 million yen in the first half of the previous fiscal year).

(2) Details of financial position

Total assets at the end of the first half under review increased 4,346 million yen from the end of the previous fiscal year, rising to 188,516 million yen. The main reasons for the increase were a 5,612 million yen rise in fixed assets, mainly reflecting an increase in lease assets, and a 1,266 million yen decrease in current assets primarily due to the decline in short-term investment securities.

Liabilities increased 6,103 million yen from the end of the previous fiscal year, rising to 152,171 million yen. The key factors contributing to this increase were a 1,614 million yen rise in current liabilities, mainly reflecting an increase in short-term loans payable, and a 4,488 million yen increase in non-current liabilities, primarily attributable to an increase in lease obligations.

Net assets decreased 1,757 million yen from the end of the previous fiscal year, to 36,344 million yen.

(3) Information on the future outlook, including consolidated financial results forecasts

Based on progress in the first six months of the fiscal year, the Group has revised its financial results forecast for the fiscal year ending March 31, 2017, which was released on May 13, 2016, as presented below.

The Group expects sales for the Medical Support Segment and the Long-term Care Segment to fall below the previously announced figures due to delays in the acquisition of medical institutions under contract and long-term care service users caused by a shortage of capable individuals.

The Group has retained the previously announced figures as its income forecasts in view of progress in the first half according to its overall plan. The Group will continue making efforts to achieve forecast income levels, taking steps including the reviews of administrative operations at the head office, branches and other offices, and the advancement of promotional activities focusing on cost effectiveness.

(Forecast of consolidated financial results)

Fiscal year ending March 31, 2017 (April 1, 2016 – March 31, 2017)

	Net Sales	Operating Income	Ordinary Income	Profit attributable to owners of parent	Net Income per Share
Previously announced forecast (A)	Million yen 294,700	Million yen 4,800	Million yen 1,300	Million yen 500	Yen 7.79
Revised forecast (B)	282,000	4,800	1,300	500	7.79
Change (B – A)	(12,700)	―	―	―	―
Change (%)	(4.31)	―	―	―	―
(Reference) Actual results (fiscal year ended March 31, 2016)	273,583	(785)	(3,629)	(15,995)	(248.83)

(Forecast of nonconsolidated financial results)

Fiscal year ending March 31, 2017 (April 1, 2016 – March 31, 2017)

	Net Sales	Operating Income	Ordinary Income	Net Income	Net Income per Share
Previously announced forecast (A)	Million yen 254,000	Million yen 2,900	Million yen 1,700	Million yen 1,700	Yen 26.48
Revised forecast (B)	242,800	2,900	1,700	1,700	26.48
Change (B – A)	(11,200)	―	―	―	―
Change (%)	(4.41)	―	―	―	―
(Reference) Actual results (fiscal year ended March 31, 2016)	238,885	(1,696)	(2,772)	(15,910)	(247.51)

2. Summary information (notes)
(1) Significant changes to subsidiaries during the term
There are no applicable matters.

(2) Application of specific accounting for preparing the quarterly consolidated financial statements
There are no applicable matters.

(3) Changes in accounting policies, changes of accounting estimates and restatement
There are no applicable matters.

3. Quarterly consolidated financial statements

(1) Quarterly consolidated balance sheets

	Fiscal 2016 (As of March 31, 2016)	H1 of Fiscal 2017 (As of September 30, 2016)
Assets		
Current assets		
Cash and deposits	13,530,688	13,328,303
Notes and accounts receivable—trade	32,803,595	32,808,816
Short-term investment securities	3,020,964	1,502,296
Merchandise and finished goods	1,037,203	1,068,930
Work in progress	13,335	38,940
Raw materials and supplies	205,143	287,796
Deferred tax assets	1,477,876	1,676,719
Other	11,178,378	11,235,838
Less: allowance for doubtful accounts	(85,387)	(32,307)
Total current assets	63,181,798	61,915,334
Fixed assets		
Property, plant and equipment		
Buildings and structures—net	24,000,568	23,769,560
Lease assets—net	39,307,921	45,203,442
Other—net	9,949,984	9,349,715
Total property, plant and equipment	73,258,475	78,322,718
Intangible assets		
Goodwill	15,776,886	15,093,797
Other	5,246,065	5,322,111
Total intangible assets	21,022,951	20,415,908
Investment and other asset		
Other	27,582,499	28,224,984
Allowance for investment loss	(140,000)	-
Less: allowance for doubtful accounts	(735,588)	(362,719)
Total investments and other assets	26,706,911	27,862,265
Total fixed assets	120,988,337	126,600,892
Total assets	184,170,136	188,516,226
Liabilities		
Current liabilities		
Notes and accounts payable—trade	884,520	670,977
Short-term loans payable	20,307,461	22,411,321
Income taxes payable	1,199,674	1,522,635
Accrued expenses	16,300,768	16,737,730
Provision for bonuses	4,892,578	5,439,228
Provision for directors' bonuses	38,000	23,450
Other	24,548,610	22,980,803
Total current liabilities	68,171,614	69,786,146
Non-current liabilities		
Long-term loans payable	19,548,389	17,351,175
Lease obligations	43,399,237	49,915,279
Net defined benefit liability	7,015,433	7,217,851
Asset retirement obligations	2,308,169	2,341,044
Other	5,625,412	5,560,065
Total non-current liabilities	77,896,643	82,385,416
Total liabilities	146,068,258	152,171,563

(Thousand yen)

	Fiscal 2016 (As of March 31, 2016)	H1 of Fiscal 2017 (As of September 30, 2016)
Net assets		
Shareholders’ equity		
Capital stock	11,933,790	11,933,790
Capital surplus	17,354,214	17,312,190
Retained earnings	19,635,508	18,043,395
Treasury stock, at cost	(11,377,668)	(11,376,473)
Total shareholders’ equity	37,545,845	35,912,902
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	12,815	12,520
Foreign currency translation adjustments	333,133	73,273
Remeasurements of defined benefit plans	(1,022,986)	(915,330)
Total accumulated other comprehensive income	(677,038)	(829,536)
Subscription rights to shares	511,733	518,663
Non-controlling interests	721,337	742,634
Total net assets	38,101,877	36,344,663
Total liabilities and net assets	184,170,136	188,516,226

(2) Quarterly consolidated statements of income and comprehensive income

(Quarterly consolidated statements of income)

(Six months ended September 30)

(Thousand yen)

	H1 of Fiscal 2016 (from April 1, 2015 to September 30, 2015)	H1 of Fiscal 2017 (from April 1, 2016 to September 30, 2016)
Net sales	136,575,297	137,751,166
Cost of sales	111,774,164	112,306,182
Gross profit	24,801,132	25,444,983
Selling, general and administrative expenses	25,275,045	24,629,642
Operating income (loss)	(473,913)	815,341
Non-operating income		
Interest income	82,576	75,311
Rent income	117,264	100,978
Subsidy income	270,424	130,519
Share of profit of entities accounted for using equity method	21,063	16,858
Other	198,120	286,085
Total non-operating income	689,449	609,752
Non-operating expenses		
Interest expenses	1,661,370	1,975,120
Rent expenses	29,566	18,372
Other	225,816	542,362
Total non-operating expenses	1,916,754	2,535,855
Ordinary income (loss)	(1,701,217)	(1,110,761)
Extraordinary income		
Gain on reversal of subscription rights to shares	-	8,158
Other	-	783
Total extraordinary income	-	8,942
Extraordinary losses		
Loss on retirement of property, plant and equipment, net	9,711	1,124
Loss on sales of property, plant and equipment, net	566	-
Share-based compensation expenses	360,903	-
Impairment loss	-	24,464
Other	9,391	463
Total extraordinary losses	380,574	26,052
Income (loss) before income taxes	(2,081,792)	(1,127,871)
Income taxes—current	769,649	762,751
Income taxes—deferred	(525,811)	(561,271)
Total income taxes	243,837	201,480
Net income (loss)	(2,325,630)	(1,329,351)
Profit (loss) attributable to non-controlling interests	(28,843)	(88,891)
Profit (loss) attributable to owners of parent	(2,296,787)	(1,240,460)

(Quarterly consolidated statements of comprehensive income)

(Six months ended September 30)

(Thousand yen)

	H1 of Fiscal 2016 (from April 1, 2015 to September 30, 2015)	H1 of Fiscal 2017 (from April 1, 2016 to September 30, 2016)
Net income (loss)	(2,325,630)	(1,329,351)
Other comprehensive income		
Valuation difference on available-for-sale securities	100	(295)
Foreign currency translation adjustments	271,105	(325,768)
Remeasurements of defined benefit plans, net of tax	72,889	107,656
Total other comprehensive income	344,095	(218,407)
Comprehensive income	(1,981,534)	(1,547,758)
Comprehensive income attributable to:		
Owners of parent	(1,958,578)	(1,392,958)
Non-controlling interests	(22,956)	(154,800)

(3) Notes to quarterly consolidated financial statements

Notes on the premise of a going concern

There are no applicable matters.

Notes on significant fluctuation in the amount of shareholders' equity

There are no applicable matters.

Significant subsequent events

There are no applicable matters.